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NATIONAL ENERGY BOARD
REASONS FOR DECISION

In the Matter of the Application Under
Part IV of the National Energy Board Act
Rates Application

of

Trans - Northern Pipe Line Company

November 1979



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Ce rapport est publié
séparément dans les
deux langues officielles.

NATIONAL ENERGY BOARD

IN THE MATTER OF the National Energy Board Act and the Regulations made thereunder;

IN THE MATTER OF an application by Trans-Northern Pipe Line Company (hereinafter called "the Applicant" or "the Company") for certain orders respecting rates and tolls pursuant to Part IV of the National Energy Board Act, filed with the Board under File No. 1762-T2-1

HEARD AT Ottawa, Ontario on:

21, 22, 23, 24, 27, 28, 29, 30
and 31 August, 1979.

BEFORE:

C.G. Edge	Presiding Member
L.M. Thur	Member
R.B. Horner	Member

APPEARANCES:

D.H. Rogers)	Trans-Northern Pipe Line Company
E.B. McDougall)	
R.F. O'Brien)	Air Canada, Canadian Pacific Air Lines Limited, Eastern Air Lines Inc., AER Linte Eireann Teoranta, Allegheny Airlines Inc., British Airways Board, Delta Airlines Inc., Eastern Provincial Airways (1963) Limited, Deutsche Lufthansa AG, Compagnie Nationale Air France, Lot Polish Airlines, Nordair Ltée - Nordair Ltd., Swissair Swiss Air Transport Company Limited and Koninklijke Luchtvaart Maatschappij N.V.,
)	
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)	
)	
)	
)	
G.H. Robichon)	Dome Petroleum Limited
D. Dorenfeld)	Imperial Oil Limited
J. D. Brownlie)	Interprovincial Pipe Line Limited
M.A. Brown)	TransCanada PipeLines Limited

J.E. Bogue) Ministry of Energy for Ontario
P. Chartrand) Procureur général du Québec
A. Biguë)
S. K. Fraser) National Energy Board

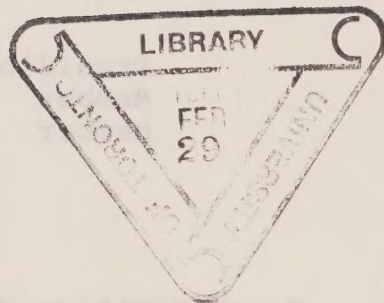


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ABBREVIATIONS

"(the) Applicant"	- Trans-Northern Pipe Line Company
"(the) Board"	- (the) National Energy Board
"(the) Company"	- Trans-Northern Pipe Line Company
"FPC"	- Federal Power Commission
"FERC"	- Federal Energy Regulatory Commission
"Hope"	- Hope Natural Gas Company
"ICC"	- Interstate Commerce Commission
"IDC"	- Interest During Construction
"Interprovincial" or "IPL"	- Interprovincial Pipe Lines Limited
"(the) NEB"	- (the) National Energy Board
"(the) NEB Act"	- (the) National Energy Board Act
"Olin"	- Olin Gas Transmission
"OPUAR"	- Oil Pipeline Uniform Accounting Regulations
"TransCanada"	- TransCanada PipeLines Limited
"Trans Mountain"	- Trans Mountain Pipe Line Company Ltd.
"Trans-Northern"	- Trans-Northern Pipe Line Company
"USOA"	- Uniform System of Accounts

CHAPTER 1

THE APPLICATION

Trans-Northern Pipe Line Company ("the Applicant", "Trans-Northern" or "the Company") was incorporated by a Special Act of the Parliament of Canada on 30 April 1949. The powers of the Company include those of constructing, or otherwise acquiring, and operating interprovincial pipelines and appurtenant facilities for the transportation of oil and refined products. Since completion of initial construction of its pipeline in 1952 the Company has made many changes in its facilities. Trans-Northern now transports refined petroleum products through 497 miles of owned pipeline including loops, 92 miles of which are in the Province of Quebec and 405 miles in the Province of Ontario. In addition, Trans-Northern operates approximately 15 miles of leased pipeline between the Toronto Airport Junction and the Cummer Junction.

By an application dated 14 November 1977, as amended, including the updated test year data filed subsequently, Trans-Northern applied for orders under Part IV of the National Energy Board Act ("The NEB Act"), fixing the just and reasonable rates or tolls the Applicant may charge for or in respect of the transportation of refined petroleum products and for such further order or orders as would enable the Company to file a tariff containing tolls which are just and reasonable.

By Order No. RH-3-79, the National Energy Board ("the Board" or the "NEB") set down the application, under Part IV of the NEB Act, for public hearing commencing on 21 August 1979 in Ottawa, Ontario. A copy of this Order appears as Appendix I to these Reasons for Decision. The hearing concluded on 31 August 1979.

CHAPTER 2

TEST PERIOD

A test period is a period of time during which costs and revenues are considered to be representative of the period when new rates and tolls will apply. A base year is the last year for which actual costs are available, and the base year costs provide the basic input which is adjusted to determine costs for the test period.

In its original application of 14 November 1977, Trans-Northern presented financial information for the year 1977 as a test year with costs projected from the base year 1976, making adjustments for cost trends and known and measurable changes.

On 23 March 1979, in response to the Board's request, Trans-Northern updated this financial information to a 1977 base year and 1979 test year.

As a result of changing conditions which rendered the information submitted on the 1979 test year no longer appropriate, the Company on 26 June 1979 presented financial information for a 1980 test year on an annualized basis. The term "annualized" means that all cost changes occurring in the test period have been adjusted to give a full twelve-month effect even though they may occur towards the end of the test year.

Subsequently, upon reference to the Board's decisions in the rate proceedings of Trans Mountain Pipe Line Company Ltd.

("Trans Mountain") and Interprovincial Pipe Line Limited ("Interprovincial" or "IPL"), Trans-Northern resubmitted its financial information using a forecast of expenditures, related to 1978 actual results, for the test year 1980, upon which it proposed the tolls for the period should be based.

The Board considers this latter approach to be the most appropriate for the current proceedings.

CHAPTER 3

REQUEST FOR RESTATEMENT OF DEPRECIATIONTHE APPLICANT'S POSITIONHistorical Summary

Trans-Northern completed construction of its initial facilities in October 1952 and began operations in the following month with the three owners, now called Gulf Oil Canada Ltd., Shell Canada Limited and Texaco Canada Limited, as sole shippers. Shippers added later were Petrofina in 1955, BP Canada in 1960 and Imperial Oil and Sun Oil in 1963 followed recently by Murphy Oil.

In 1952 there was no regulation of the pipeline's operation or earnings and the Company chose to depreciate its plant on the same diminishing balance basis as the income tax Capital Cost Allowances. The Company applied to the Board to change to straight-line depreciation in January 1974 and this was approved for accounting purposes. No application was made to the Board for a retroactive accounting adjustment to accumulated depreciation at that time.

After the Interprovincial rate case in 1977, Trans-Northern expected that its earnings would in the future be related to a depreciated original cost rate base under a return on rate base form of regulation.

The Company indicated that the diminishing balance method had left the Company with more accumulated depreciation and therefore a lower rate base than if it had used the straight-line method which was normal for the oil pipeline industry in Canada.

The Company, with the object of starting active return on rate base regulation with an appropriate rate base, requested a restatement of depreciation of \$7,108,019 made up as follows to include the test year.

Transportation Plant - Accumulated Depreciation

	1980	
	<u>1 January</u>	<u>31 December</u>
After restatement	\$19,150,638	\$20,865,030
Before restatement	<u>26,265,621</u>	<u>27,966,085</u>
	<u>\$ 7,114,983</u>	<u>\$ 7,101,055</u>
Average	\$7,108,019	

The restatement amount was derived by applying the 1974 approved straight-line depreciation rates to the assets of the Company from the start of the Company's operations in 1952 through to the test year. The amount of the restatement requested was the difference between the amounts resulting from those straight-line rates and the actual depreciation booked from 1952 through to the test year.

Reasons Given For Request For Restatement

Counsel for the Applicant stated that Trans-Northern's case was founded on fairness and that the restatement should be allowed so that the Company could begin active regulation from 1 January 1980 with an appropriate rate base compatible with other companies regulated by the Board.

The Applicant's expert witness on accounting and regulatory matters maintained that restatement was necessary in

order to place the accounting on a proper basis upon the initiation of the rate base/rate of return regulatory process.

The same witness agreed in cross-examination that the whole purpose of the adjustment of approximately \$7 million to accumulated depreciation was to recover it for rate making purposes in the cost of service. It was claimed that if the relief applied for was not granted, the Company's revenues and profits before tax, over the period of the recovery of the additional depreciation, would be \$7 million less than otherwise would be the case.

Trans-Northern's counsel submitted that failure by the Board to allow restatement of Trans-Northern's accumulated depreciation allowance would be tantamount to confiscation of a portion of its assets to the use of future customers without compensation, which would be contrary to Section 52 of the NEB Act, and therefore illegal.

Applicant's Method of Calculating Depreciation

In 1974 Trans-Northern reviewed its depreciation policy and rates which had been operative on the diminishing balance method since 1952. Revised service lives of the assets were estimated and the appropriate percentages of the original cost were used to calculate on a straight-line basis the revised annual provision. The economic life of the Company from the start of operation was estimated to be 40 years. The new rates were approved by the Board for accounting purposes

and, when it decided to apply for a restatement, the Company recalculated its annual depreciation figures as if the straight-line percentages adopted in 1974 had been in use from 1952.

The amount of depreciation requested for restatement was calculated by the Company by deducting, from the total amount of depreciation (at declining balance rates from 1952 to 1973) actually charged in prior years, the total amount of depreciation which would have been charged if the Company had used from 1952 to 1973 the straight-line rates which were adopted in 1974; the amount obtained by this calculation as of 31 December 1979 would be \$7,114,983.

The Board accepted the Applicant's statement that the straight-line rates adopted following its 1974 review were still applicable but, since that review is almost six years old, the Board considers that an updated study is now necessary; this should be based on the principles set out in section 54 of the Oil Pipeline Uniform Accounting Regulations ("OPUAR") and should relate the undepreciated value of the assets comprising the pipeline to their remaining physical and economic life, whichever is the shorter. A direction to this effect is included in the Board's disposition, Chapter 11.

Double Recovery

A fundamental regulatory tenet is that ratepayers should not have to pay twice for the same service or, put another way, a company which has recovered certain costs once from ratepayers should not recover those costs a second time.

It does not always follow that the recording of an item as an expense in the statement of income automatically means that the cost of the item has been recovered. An obvious instance of this would be where a company makes a loss. However, in normal accounting practice where there is no loss there is a presumption that the booking of a cost is an indication of its recovery.

Trans-Northern's position was that it had booked approximately \$7 million of what it considered to be excessive depreciation in the period from 1952 to the present, while it was not subject to return on rate base regulation and during which time it made profits every year except 1952 and 1953. Based on the method the Company used to calculate the \$7 million restatement, \$6,537,000 of it or over 90 percent of the excessive depreciation would have been booked by the end of 1962, or over 17 years ago. Counsel for the Applicant touched very briefly on the point that during the period from 1952 to 1962 when 90 percent of the excessive depreciation was booked, virtually all of the traffic was provided by the shipper-owners.

The Company has requested a restatement of what it considers to be excessive depreciation and this, since it would be included in the future cost of service, raises a presumption of double recovery. The expert witness on accounting and regulatory affairs stated in his direct testimony that in

considering the proposed restatement his concern was whether the adjustment would result in the customer paying for the same depreciation twice. He stated that he was given to understand by the Company that this would not occur and agreed with the intention to submit at the hearing the best possible evidence to show that the Company had not to the date of adjustment recovered the amount of depreciation which as a result of the restatement would be included in the cost of service in the future.

In order to satisfy himself and to attempt to satisfy the Board that all costs were not recovered in the past when its tolls were not regulated, the witness conceived a test which related accounting for regulated companies to that for non-regulated companies.

It was admitted that, where the bottom line of a non-regulated company is a profit and not a loss, the costs shown in the statement have been recovered. This would apply to each year of Trans-Northern's operations when not under return on rate base regulation, i.e. from 1952 to 1978, excluding the first two years when there were losses.

But it was claimed that apart from the costs listed above the line in the income statement there was an additional cost, the cost of equity capital, which was not reflected in the income statement, and until that cost was represented by a

reasonable return on the shareholders' investment, that all costs really are not recovered.

This argument develops from the regulatory concept under which the amount which the regulator allows a company the opportunity to recover includes a return on equity commensurate with its risks. If the revenue earned is not sufficient to cover all the elements of the full cost of service, of which the residual is usually the return on equity, the company may be justified in claiming that it has not recovered all its costs. Whether the claim is justified depends on whether it used the opportunity to earn the allowed return on equity.

The test was extended by applying the rate of return witness' evidence, indicating that in his opinion Trans-Northern did not earn a return commensurate with regulatory norms, during the years 1952 to 1978, to show that on a regulatory basis the Company could not be said to have recovered all of its costs over the period. However, no calculation was provided by the Applicant, measuring each year the difference in dollars between the amounts actually earned and the amounts which the expert witness' reasonable return would have produced. The total of these annual differences could then have been compared with the relief sought by the Company.

Continuing with the argument, the Applicant's counsel submitted that, in deciding which costs had not been recovered, it was reasonable to consider that cash expenses would be

recovered first and that depreciation, being the only non-cash expense, would be the last element of above the line cost to be recovered.

The circuit of the argument is here completed by stating that, since all of the depreciation previously charged had been shown not to have been recovered, there would not be a double recovery of all of the restated \$7 million.

The expert witness on accounting and regulatory matters stated that he doubted if anybody knew how much of the booked depreciation had been recovered, but that to say that it all had been recovered was as irrational as to say that none had been. A logical argument to support an amount somewhere between "all or nothing" seemed to the witness to lie in the booking of deferred taxes as described in the following section.

Booking Of Deferred Taxes

Trans-Northern's expert witness on accounting and regulatory matters stated that under the assumption that the Company had been regulated since 1952 the test showed that all of the depreciation charged previously had not been recovered, but that it was not possible to calculate precisely how much had been recovered. A compromise proposal was offered through the booking of deferred taxes, the Company now being on a normalized tax basis.

Up to 1973 there were no deferred taxes because depreciation was booked at the same rates as were allowed for

income tax Capital Cost Allowances. Using the straight-line depreciation rates which had been adopted in 1974 the Company calculated for the test year an amount of \$3,442,500 of deferred taxes which would have accumulated if it had been on straight-line depreciation and under return on rate base regulation from 1952 to 1973 and from then onwards and which would have been recovered from shippers through its inclusion in the cost of service.

The Company proposed to transfer this amount out of retained earnings into an account for accumulated deferred taxes thereby in effect granting future shippers a credit which Trans-Northern would otherwise seek to recover through the regulatory process in the years to come.

The objective was to strike a balance between the two extremes of zero and \$7,108,019 for booked depreciation to 1973 which may or may not have been recovered. The amount of restatement claimed was therefore in effect the net of the proposed restated depreciation and the deferred taxes proposed to be booked i.e., \$3,665,519 (\$7,108,019 - \$3,442,500).

The Hope Natural Gas Case And Accumulated Depreciation

Counsel for Trans-Northern referred to the leading Hope case as supportive of the Applicant's request for restatement of depreciation on the ground that, at the point when the Hope Natural Gas Company ("Hope") first came under

regulation by the Federal Power Commission (the "FPC"), the "book reserve did not measure the actual existing depreciation and depletion" and the Commission allowed a restatement of depreciation to put it on a proper basis for rate of return regulation.

Counsel also referred the Board to the Olin Gas Transmission ("Olin") case ruled on by the FPC in 1956 where it appears that restatement was allowed in order to correct excessive accumulated depreciation resulting from a high five percent annual rate used by the Company in order to recover the investment over a minimum number of years and to keep the annual income taxes as low as possible.

VIEWS OF INTERVENORS

The witness for Interprovincial repeatedly offered Interstate Commerce Commission (ICC) practices as examples; first, for permitting adjustments to financial records for items allowed for rate-making purposes; and secondly, for suggesting that adjustments from figures devolving from the ICC method of regulation might be allowed if the Federal Energy Regulatory Commission (FERC) which now regulates the tolls of oil pipelines in the United States were to impose return on original cost rate base regulation on United States oil pipeline companies.

He did admit that the FERC had not yet ruled on the allowance of such adjustments and that the Commission had not

yet arrived at a decision on whether to introduce this type of regulation to United States oil pipeline companies hitherto regulated under the ICC method.

VIEWS OF THE BOARD

Exercise of Discretion by Board in Valuation of Rate Base

Section 50 of the NEB Act empowers the Board to make orders with respect to all matters relating to traffic, tolls or tariffs. Under Part IV of the Act, the tolls to be charged by Trans-Northern must be just and reasonable. The Act provides that, under substantially similar circumstances and conditions, tolls shall be charged equally to all persons at the same rate for traffic of the same description carried over the same route, and that the company shall not make any unjust discrimination in tolls, service or facilities against any person or locality. However, the Act does not prescribe or define what constitutes just and reasonable tolls, nor does it prescribe or define the method by which the Board is to fix such tolls, these being left for the Board to determine.

Once an application has been made under Part IV of the Act for the determination of just and reasonable tolls and a method of regulation has been selected by the applicant and approved by the Board, it is for the Board to exercise its discretion in defining the elements that will make the method operative.

In considering a return on rate base method of regulation, one of the elements subject to Board discretion is

the determination of the valuation of the rate base for a company which is regulated for the first time. The Applicant's request for restatement of accumulated depreciation falls into that category.

The rate base applied for was based on the original cost of the assets and the Board has discretion in determining whether the accumulated depreciation recorded on the books of account reasonably measures the actual depreciation which has occurred. The questions are, whether the Board should exercise its discretion in this case, and, if so, to what extent?

Facts

The facts relating to these issues are relatively straight-forward.

1. Had Trans-Northern applied the straight-line depreciation rates established in 1974 from 1952 up to the test period, compared with the diminishing balance rates of depreciation actually booked up to 1973 and straight-line rates booked thereafter, the accumulated depreciation for the test year would have been \$7,108,019 lower and the net asset value \$7,108,019 higher.
2. If it is assumed that Trans-Northern would have used normalized income tax accounting had it adopted straight-line depreciation in 1952, as was the case in other pipeline companies under the Board's

jurisdiction, the deferred tax liability on the balance sheet for the test period would have been \$3,442,500 greater.

3. If, therefore, Trans-Northern had adopted straight-line depreciation and normalized taxes in 1952, its net fixed assets in the rate base would have been \$3,665,519 (\$7,108,019 - \$3,442,500) higher than is the case today, based on the actual accounting practices of the Company.
4. Since Trans-Northern had freedom to establish prices, it is reasonable to assume that from 1952 to 1962, when most of the differences occurred, the application of straight-line rates from 1952 onwards would only have altered the amount of depreciation charged and would have had no effect on the Company's revenue, operating costs, taxes payable nor, therefore, on its cash position.
5. The Board accepts the Company's assertion that it is impossible to determine from the facts on the record the extent of any double recovery if the assets were to be revalued. The Company claims, and the Board accepts, that the correct answer would lie somewhere between \$0 and \$7 million. (The Company could have attempted to have been more precise on this, but did not do so although it suggested a compromise through booking of Deferred Taxes as mentioned above).

The Views of the Board

Turning now to the views of the Board, there are five reasons which would support a denial of the Applicant's request. They are:

1. In normal circumstances double recovery is not acceptable under regulatory principles, and in the circumstances of this case, it is impossible to determine for any increase in the net asset value that there would, in fact, be no double recovery.
2. One test suggested by Trans-Northern to determine if an adjustment should be made to accumulated depreciation relates to whether the Company earned a normal return on equity commensurate with risk in the period between 1952 and 1962. During these years, the Company had complete freedom on pricing, but it did not adduce any substantive evidence in the hearing as to what its policies were at that time. Three of the shippers (Gulf, Shell and Texaco), who were also the sole owners, and who accounted for most of the throughput shipped between 1952 and 1962, did not appear as intervenors and, therefore, did not shed any light on Trans-Northern policies in this period. During this time there was some flexibility, depending on pricing policies, as to whether profits were recorded on the

books of the pipeline company or in the shipper companies' own financial statements.

3. If the Board were to authorize the adjustment to the rate base by applying straight-line rates from inception of operations to the end of the Company's forecast economic life, calculating the accumulated depreciation at the point in time when return on rate base regulation begins, and adjusting the net asset base accordingly, there is a risk that the Company would be placed on a more favourable regulatory basis than other pipeline companies. For example, regulated pipeline companies change their straight-line depreciation rates from time to time as more facts become known about the remaining economic life of the pipeline company. Using the principles for which Trans-Northern is seeking approval, suppose a pipeline company were depreciating its assets at four percent per year and then later found that a revised estimate of the economic life indicated the depreciation rate should be changed to two percent. In order to recover the undepreciated value of the assets over the remaining economic life, it could theoretically apply to the Board to have the value of its rate base increased at the point it sought to change its depreciation rates because the rate base would have

been over-depreciated by the previous high rates. It would then apply for, say, a three percent depreciation rate (based on the rate applicable to the company from its birth to death). It would thus be including three percent depreciation in its cost of service as well as a return on a higher rate base because of the upward revaluation. This is not current regulatory practice in Canada, where necessary adjustments are generally made to depreciation rates rather than to the value of rate base.

4. The company did not adduce in evidence opinions on what its depreciation rates would have been in the period between 1952-1962 had it adopted the straight-line depreciation basis at that time. The Applicant's case rests to some extent on hindsight in 1974 on the situation prevailing from 1952 to 1962.
5. The Company asserted that if its application were not granted then any rates imposed would be confiscatory, presumably because all its costs including the excessive depreciation to 1973 would not be recovered. The Board's view is that the Applicant's assertion cannot be sustained.

(i) If the test applicable to non-regulated companies is used in the period for 1952 to 1973 - and surely this is the prime test as the

Company was not regulated in that period - then all costs were recovered except possibly in 1952 and 1953.

(ii) If the test applicable to regulated companies is applied, the Company could not prove that there would not be any double recovery even if the Board authorized only \$1.00 of the Company's request.

(iii) The Company's claim that it did not recover costs in the period 1952 to 1973 rests on the assertion that the Company did not earn a normal return on equity in each of these years.

However, regulators do not guarantee normal returns but only provide the opportunity to earn them. There was no evidence in the period 1952 to 1962 that the Company used the opportunity to do so. The absence of evidence from the shipper-owners on the Applicant's pricing and corporate policies in the early period resulted in lack of substance to the Applicant's case.

On the other hand, Trans-Northern's case is unique. It is the only major pipeline under the Board's jurisdiction that adopted diminishing balance depreciation in the period between 1952 and 1962. The Company could not reasonably be expected to foresee at that time the potential adverse impact of its

depreciation policy on rate regulation in the 1980's. In addition, there is some support in United States regulatory precedents, notably the Hope and Olin cases, for adjustment of the rate base in circumstances which are somewhat analogous to those identified by the Applicant.

On the question of potential double recovery, it must be recognized that for the Company's first ten years of operations, virtually all of the throughput was provided by the shipper-owners and most of the recovery in those years would not be from outside ratepayers but from the shipper-owners themselves.

The Board's Decision

While the balance of the evidence tends to be against granting the entire relief sought, the Board is prepared to exercise its discretion in this matter to grant some relief and, as a matter of judgement, to authorize a reduction in the accumulated depreciation of \$2.0 million as at 1 January 1980 and an increase of \$1.0 million in the deferred tax liability as of the same date, with consequential changes in the rate base for the test year 1980. The deferred tax liability is to be deducted from the rate base for purposes of the regulation of the tolls of Trans-Northern. The Board will require Trans-Northern to record in its books and accounts as of 1 January 1980 the entry required to give effect to this decision concerning restatement depreciation, namely,

Dr. Account 31, Accumulated depreciation,
transportation plant

\$2,000,000

Cr. Account 71, Accumulated tax
reductions applicable to future
years

\$1,000,000

Cr. Account 92, Retained earnings

\$1,000,000

CHAPTER 4

REQUEST FOR RESTATEMENT
FOR AN ALLOWANCE FOR INTEREST DURING CONSTRUCTION

THE APPLICANT'S POSITIONBackground

Trans-Northern has applied to be allowed to recalculate the cost of transportation plant retroactively from the start of operations in November 1952 by including the value of interest during construction ("IDC") each year at the prevailing prime bank rate in the cost of all major construction projects. The amount for which the application was made was \$409,933.

IDC was capitalized during the initial construction of the pipeline but from the start of operations in November 1952 all interest costs have been charged against income as they were incurred.

Reason For Application For Restatement of IDC

The basis of the Applicant's request, as supported by one expert witness, was that, if its earnings were to be regulated on a utility-type original cost rate base, then, consistent with regulatory practice, IDC should be included as an element of cost in transportation plant.

A Company witness stated that the justification for the application was the fact that both Interprovincial and Trans Mountain in their recent rate cases had requested a similar adjustment; he added that there was no thought that the treatment of interest during construction was in any way similar to the Company's treatment and discussion of depreciation.

VIEWS OF INTERVENORS

The expert witness for Interprovincial argued that regulations for accounting purposes may differ from the requirements for rate-making purposes, and that therefore equitable original cost regulatory results could not be achieved by a Company whose books had followed the accounting requirements, unless appropriate adjustments were made for the purpose of rate-making. As an example, he quoted the ICC practice, where the Uniform System of Accounts ("USOA") prohibits an allowance for equity funds used for construction but the Commission permits such an allowance in calculating the cost of assets included in rate base for rate-making purposes.

He considered that, prior to the introduction of return on rate base regulation, Canadian oil pipelines were justified in following the practice of United States oil pipeline companies because the Canadian OPUAR (and the predecessor Uniform Classification of Accounts) were originally modelled in part on the ICC's USOA.

The witness suggested that there would be no over-recovery of IDC on the use of equity funds since no allowance therefor had previously been recorded in the books.

VIEWS OF THE BOARDMeaning for IDC

In the Application both the terms "Interest during Construction" and "Allowance for Funds During Construction" have been used.

There were assertions by a Company witness that Trans-Northern was proposing only to reverse interest on debt expensed in prior years and was not applying to capitalize retroactively an imputed interest on equity funds. Despite these statements, it is apparent both from the statements in the Application regarding sources of finance and from the years in which retroactive adjustments were calculated (in which no borrowings were evident) that the Company is in effect applying for an allowance on both equity and debt used for construction.

To avoid confusion the Board will here use the only expression adopted in the OPUAR which is Interest During Construction ("IDC"), but in the sense that it includes an allowance on both borrowed and equity funds.

Borrowed Funds Used For Construction

A Company witness stated that Trans-Northern proposed to reverse interest on debt which in previous years had been expensed but which could have been capitalized. However, a major objection to restatement for the interest previously written off is that there is a strong presumption, even more than for depreciation, that the costs were both incurred and recovered in prior years. Unlike depreciation, the costs were paid to arm's-length lenders in cash, and the Applicant's counsel considered it to be reasonable to consider that cash expenses would have been recovered before the depreciation cost.

In considering the question of depreciation, the Board was unable to accept that the Applicant had discharged its burden of proof that items which had been recorded as expenses in financial statements had not been recovered by the Company in the profit-making years from 1954 to 1978 when it was not under return on rate base regulation. The Board's opinion is even firmer in the case of cash expenses, in which category payments of interest are included.

In the Trans Mountain case, restatement of interest on borrowed funds was disallowed because there was a reasonable assumption that the costs, which had previously been written off, had been recovered.

In its case, Interprovincial agreed that there was no satisfactory way to establish with an acceptable degree of certainty whether it had previously recovered through its tolls the additional costs for IDC which it applied to have included in its rate base (Reasons for Decision, December 1977, page 3-56).

Equity Funds Used for Construction

There is no question of double recovery with respect to equity funds used for construction because Trans-Northern did not in past years record, or apply for Board permission to record, an allowance for use of its equity funds for construction.

In rendering its decision in the Interprovincial case, among other things the Board distinguished the cases relied upon by IPL involving Canadian gas distribution companies from the facts before it in that the said companies had previously recorded IDC in their accounts and were seeking to alter the amounts to be included in rate base, which changes were allowed.

The Board found the two United States cases, Hope and Canadian River, where applications to reinstate in rate base amounts previously expensed were rejected, were closer to the IPL facts. The United States companies' applications were denied; the Board considered that these companies were seeking a re-accounting rather than regulatory affirmation of previous actions and the Board followed those cases in denying Interprovincial's request for a retroactive adjustment of IDC.

Intervenors' Arguments

Although it may have appeared, as suggested by the expert witness for Interprovincial, that initially the Board's uniform accounting regulations followed the general pattern of the ICC's USOA, there always have been a number of important differences between the two. One such difference is that the NEB's OPUAR have always permitted the capitalization of an allowance on both borrowed and equity funds used for construction. The option was there but Trans-Northern chose not to use it.

The witness agreed that, despite the structural resemblance of the NEB and ICC uniform accounting regulations, he could refer to no instance in which the Board had indicated to a Canadian oil pipeline company that it was to be regulated in a manner similar to that of the ICC.

DECISION OF THE BOARD

The Board considers that no convincing arguments or evidence have been presented in this case to persuade it to accept Trans-Northern's application for an allowance for prior years' IDC or to diverge from the previous decisions on "Interest During Construction" in the Trans Mountain and Interprovincial cases. Trans-Northern therefore has not made its case to justify the use by the Board of its discretion to adjust the Company's rate base on its entry into return on rate base regulation,

- (a) by restating any part of the requested interest on borrowed funds used for construction which has been written off as an expense in prior years, or,
- (b) by approving a requested allowance on equity funds used for construction which had not been recorded in the books of the Company in prior years.

The adjustment requested is therefore denied.

CHAPTER 5

RATE BASE AND ASSETS SPECIALLY CLASSIFIED

Trans-Northern submitted a proposed rate base composed of the average cost of assets in service at the beginning and the end of the test year 1980 plus an allowance for working capital.

The Board has made a number of adjustments to the rate base proposed by Trans-Northern which are explained in detail in the remaining sections of this chapter.

The rate base as submitted by the Applicant and as approved by the Board, the adjustments made by the Board and assets specially classified, are summarized in the following tables.

SUMMARY OF RATE BASE

	<u>Per Submission</u>	<u>Revised Submission*</u>	<u>Board Adjustments</u>	<u>Allowed by Board</u>
Plant in service	\$61,068,468	\$61,466,618	(\$ 739,861)**	\$60,726,757
Accumulated depreciation	<u>(20,007,834)</u>	<u>(20,018,975)</u>	<u>(5,012,798)**</u>	<u>(25,031,773)</u>
Net plant in service	\$41,060,634	\$41,447,643	(\$5,752,659)	\$35,694,984
Working capital	<u>1,532,687</u>	<u>1,532,687</u>	<u>55,861</u>	<u>1,588,548</u>
Total rate base before deducting deferred taxes	<u>\$42,593,321</u>	<u>\$42,980,330</u>	<u>(\$5,696,798)</u>	<u>\$37,283,532</u>

* This column incorporates revisions of the Application made by Trans-Northern based on matters raised in the course of the hearing.

** Includes assets transferred to Assets Specially Classified.

SUMMARY OF ADJUSTMENTSPlant in Service

- Correction of an error in the revised submission in which this amount, which represents IDC on Finch Dam and Oakville-Clarkson loop for 1979, was deducted from plant in service	\$ 10,946
- Disallowance of retroactive capitalization of IDC (See Chapter 4)	(409,933)
- Assets specially classified	<u>(340,874)</u>
	<u>(\$739,861)</u>

Accumulated Depreciation

- Accumulated depreciation on the IDC on Finch Dam and Oakville-Clarkson loop	\$ 303
- Disallowance by the Board of retroactive adjustment for depreciation (see page 3-2)	7,108,019
- Allowance by Board (see Chapter 3)	(2,000,000)
- Assets specially classified	<u>(95,524)</u>
	<u>\$5,012,798</u>

ASSETS SPECIALLY CLASSIFIED

	I	II	III	IV	V	VI
	Cost 1 Jan/80	Accum. Deprec. 1 Jan/80	Net Book Value at 1 Jan/80	Provision for Amortization for 1980 @ 1/5	Net Book Value at 31 Dec/80	Net Average Amount of Cols. III and V
Transferred from Plant in Service	\$340,874 ⁽¹⁾	\$ 89,994 ⁽²⁾	\$250,880	\$50,176	\$200,704	\$225,792
Transferred from Plant under Cons- truction						
Brighton Pump Stat.	335,231	192,717 ⁽³⁾	142,514	28,502	114,012	128,263
Finch Dam	34,739	-	34,739	6,948	27,791	31,265
	<u>\$710,844</u>	<u>\$282,711</u>	<u>\$428,133</u>	<u>\$85,626</u>	<u>\$342,507</u>	<u>\$385,320</u>

5
1
3

- 1- Cost of assets transferred \$344,074 less applicable portion of IDC retroactive adjustment \$3,200 =
\$340,874
- 2- Accumulated depreciation 1 January 1980 \$122,790 less applicable portion of the depreciation retroactive
adjustment \$32,796 = \$89,994
- 3- Accumulated depreciation 1 January 1980 \$262,949 less applicable portion of the depreciation retroactive
adjustment \$70,232 = \$192,717

RETROACTIVE ADJUSTMENTS

In its submission Trans-Northern proposed to include in rate base retroactive adjustments to capitalize IDC and to reflect depreciation using the straight-line method from inception of the Company. The Board has decided to disallow the requested capitalization of IDC and to allow only \$2,000,000 of the requested adjustment of accumulated depreciation for the reasons set out in Chapters 3 and 4.

PLANT NOT FULLY USED

Evidence presented at the hearing disclosed that the following fixed assets, included in Trans-Northern's proposed rate base, would not be fully used in the test year in providing transportation services:

	<u>Cost</u>	<u>Accumulated Depreciation 1 January 1980</u>
Miscellaneous items previously in service; now held as spares and standby	\$210,553	\$ 81,716
St. Polycarpe Pump Station	7,811	8,127*
Chesterville Pump Station	5,600	1,320
Metcalf Pump Station	4,188	2,082
Dorval 60-foot diameter tank	<u>115,922</u>	<u>29,545</u>
	<u>\$344,074</u>	<u>\$122,790</u>

* Under the group method of depreciating assets the accumulated depreciation on an individual asset can exceed the original cost of that asset.

With respect to the St. Polycarpe, Chesterville and Metcalfe Stations the above amounts represent only part of the facilities for those stations. Station piping (now part of the main line) and the pumping facilities remain in the rate base.

The Dorval storage tank, while not now in active use, would probably be used in the future.

Two other items, while not in the Applicant's rate base, were also examined.

	<u>Cost</u>	<u>Accumulated Depreciation 1 January 1980</u>
Brighton Pump Station	\$335,231	\$262,949
Finch Dam Reservoir pipe line, 1,200 feet 16-inch	34,739	

Brighton pump station, it was disclosed, will be removed from service by the end of 1979. The Finch Dam line is capable of being used in case of problems or failures on the existing line.

After consideration of the evidence adduced, the Board concludes that the listed \$344,074 of fixed assets are neither fully in use in pipeline transportation service at this time, nor likely to be so used in the foreseeable future. The Board recognizes that the facilities were constructed at a time when their use was required. In the case of St. Polycarpe, Chesterville, Metcalfe and Brighton pumping stations, the above-ground facilities are now being held as spares and standby.

The Board finds that all of the assets discussed above should be identified as "Assets Specially Classified" and as such, the Company should be permitted to recover for these assets:

- (a) continuing maintenance costs;
- (b) undepreciated capital costs by means of accelerated amortization over a period of five years; and

- (c) a return on the average investment at one-half of the rate of return applicable to plant in service.

WORKING CAPITAL

Trans-Northern proposed the inclusion in its rate base of an allowance for working capital equal to one-eighth of its cash operating expenses and provision for income taxes payable, being the traditional formula approach.

The Board views working capital as consisting of an allowance for cash working capital (cash needed to finance operating expenses and income taxes payable as well as minimum cash balances) together with separate allowances for inventories and prepayments.

In most cases the Board prefers to rely on lead-lag studies for cash working capital rather than the 45-day rule of thumb approach which equates cash working capital to one-eighth of the annual cash operating expenses plus income taxes payable. In Trans-Northern's case, the Board has relied on the average time lag between payment of cash expenses and the receipt of revenue. The Applicant provided a study of this lag which showed the time lag to be 16 days. The Board reduced this time lag to 13 days to reflect the removal of municipal taxes from the calculation of the lag as these taxes are included in prepayments. Operating expenses have also been adjusted to remove taxes other than income taxes for the same reason.

In recognizing that this calculation of the cash operating expenses is based on an average time lag, and that

there will be variations in the timing of receipts and payments it is considered that a cash cushion of 15 days should be provided in addition to the time lag of 13 days.

Although the Applicant's proposed working capital allowance did not include separate components for average inventory and prepayments, the Applicant provided estimates for those items during the hearing. The Board agrees with the Applicant's estimate of \$365,000 for average inventory, and considers that \$450,000 adequately provides for prepayments.

In view of the above the Board finds that an allowance for working capital in the rate base should include 28/365 of the cash expenses including income taxes payable and excluding other taxes, plus an allowance for average materials inventory of \$365,000 and an allowance for prepayments of \$450,000.

Following is a recapitulation of the working capital allowance as submitted by the Applicant and as approved by the Board:

	<u>Per Submission</u>	<u>Board Adjustment</u>	<u>Allowed by Board</u>
Inventory	\$ -	\$ 365,000	\$ 365,000
Prepayments	-	450,000	450,000
Allowance for cash operating expenses and income taxes			
1/8 x 12,261,500	1,532,687		
28/365 x 10,083,752		(759,139)	773,548
	<u>\$1,532,687</u>	<u>\$ 55,861</u>	<u>\$1,588,548</u>

CHAPTER 6

COST OF SERVICE
(EXCLUDING RETURN ON RATE BASE)

The five components of Trans-Northern's cost of service are operating expenses, depreciation of plant in service, amortization of assets specially classified, provision for income taxes (normalized), and return on rate base and the assets specially classified. A summary of the five components appears in Chapter 8. The first four of the above five components are discussed in this chapter while the fifth component, "returns on rate base and assets specially classified" is covered in Chapter 7.

OPERATING EXPENSES

The expenses of operating the pipeline system, comprising maintenance, transportation, and general and administrative expenses as proposed by the Applicant and as approved by the Board, are summarized as follows.

	<u>Mainte- nance</u>	<u>Transporta- tion</u>	<u>General and Admini- strative</u>	<u>Total</u>
Per Application	\$1,650,000	\$3,122,000	\$4,000,000	\$8,772,000
Adjustments:				
Oil loss provision	-	(25,000)	-	(25,000)
1 % reduction in general wage increase	(4,669)	(9,325)	(6,853)	(20,847)
Merit portion of allowance for promotions, progressions and merit increases	(3,294)	(6,579)	(4,835)	(14,708)
Reduction* of employee benefits resulting from actuarial report			[*] (201,000)	[*] (201,000)
Total adjustments	<u>(7,963)</u>	<u>(40,094)</u>	<u>(212,688)</u>	<u>(261,555)</u>
Allowed by the Board	<u>\$1,642,037</u>	<u>\$3,081,096</u>	<u>\$3,787,312</u>	<u>\$8,510,445</u>

* Amendment made by Applicant during the Hearing.

After giving effect to the above adjustments the Board approves an amount of \$8,510,445 for inclusion in Trans-Northern's cost of service in the test year. These adjustments are discussed in detail in the following sections.

Oil Loss

The Applicant submitted that an approximation of the value of oil losses and gains for 1979 and 1980 would be:

	<u>1979</u>	<u>1980</u>
Value of product gain	(\$40,000)	0
Loss due to downgrading	<u>\$50,000</u>	<u>\$50,000</u>
	<u>\$10,000</u>	<u>\$50,000</u>

The evidence indicated that loss due to downgrading (due to cutting interfaces into lower grade product) would amount to approximately \$50,000. In addition, although in previous years there had been a net gain in product volume, the Company estimated that net gain/loss would be nil in the test year due to the inauguration of the use of temperature correction factors for the prover tanks.

With respect to the cost of downgrading of product, the Board finds that, considering the complexity of the system and the number of interfaces which cause downgrading, the Applicant's estimate of \$50,000 is reasonable.

With respect to product gain, although the Company has just recently inaugurated procedures to improve its measuring methods, the Board finds that it is unwilling to accept the Applicant's view that the measurement accuracy will result in a nil product gain/loss and the Board has included \$25,000 as an estimate for this.

For the test year, the Board finds that a net oil loss of \$25,000 is reasonable.

Salaries, Wages and Benefits

The Applicant, in its estimate of salaries and wages, provided for an increase of eight percent effective 1 January 1980. This escalation rate was equal to Trans-Northern's forecast inflation rate for 1980. The Applicant also included in its test year cost of service an allowance for promotions, progressions, and merit increases in the amount of \$23,000, and an allowance for employee benefits of \$955,000, subsequently

revised by the Applicant during the hearing to \$754,000, the reduction of \$201,000 being based on the results of an actuarial report performed for the Company. Trans-Northern maintained that, following its revision, the cost of its benefit program as a percentage of gross payroll was similar to that of other oil pipeline companies.

It is the Board's view that the Applicant's allowance for test year benefits, as revised downwards by the Applicant by \$201,000, is reasonable. However, the Board is of the opinion that, for the purpose of determining the amount to be included for salaries and wages in the cost of service, the escalation rate suggested by Trans-Northern is too high and should be reduced from eight to seven percent. This results in an adjustment of \$20,847.

With regard to the Applicant's allowance for promotions, progressions, and merit increases, it is the Board's view that Trans-Northern did not provide sufficient evidence showing that the proposed merit increases could be justified as an addition to the overall level of salaries. The Board therefore concludes that the \$14,708 pertaining to merit increases should be excluded from the cost of service. The Board accepts the inclusion of an allowance for promotions and progressions since this adjustment was more than offset by the reduction in test year salaries and wages made by Trans-Northern to reflect the replacement of retired personnel by lower paid employees.

By reason of the foregoing adjustments, the Board reduces the Applicant's projection of operating expenses by an amount of \$35,555 as well as accepting the Applicant's downward revision of employee benefits by \$201,000.

DEPRECIATION

The provision for depreciation included in the revenue requirement by the Applicant is a function of transportation plant in service and the depreciation rates on file with the Board. The amount of the provision has been adjusted for the changes in rate base discussed in a previous chapter.

The depreciation provision as submitted by the company, the Board adjustments, and the depreciation approved by the Board are summarized below.

Provision for depreciation submitted by the company	\$1,714,000
<u>Adjustments</u>	
Depreciation on additions to plant in services by the Applicant in the revised submission	11,189
Depreciation on the \$10,946 added to plant in service representing IDC on Finch Dam and Oakville and Clarkson loop in 1979 which was deducted from plant in service in error	307
Depreciation on the retroactively capitalized IDC disallowed by the Board	(13,536)
Depreciation on assets specially classified, net of IDC	<u>(9,579)</u>
Net decrease	<u>(11,619)</u>
Provision for depreciation approved by the Board	<u>\$1,702,381</u>

AMORTIZATION

The Board finds that the net book value of assets specially classified at 1 January 1980 in the amount of \$428,133 should be amortized over a period of five years, and that the annual amortization charge should be included in cost of service. The details of the calculation of the annual amortization charge are shown in Chapter 5. The annual charge to cost of service approved by the Board is \$85,626.

INCOME TAXES

Trans-Northern has determined its provision for income taxes on the tax allocation or normalized basis since 1 January 1974. The amount of income taxes to be included in the test year has been computed by the Board on this basis. Calculations of normalized taxes, taxes payable and the ensuing average deferred tax balance for the test year are presented below. These schedules reflect the Board's decisions in respect of rate base and rate of return together with two adjustments relating to the items "allowance for funds used during construction" and "non-deductible expenses". These adjustments (the addition to income of an allowance for borrowed funds used during construction of \$37,721 and to non-deductible expenses of \$2,500 in debt issuance costs) arose out of information submitted by the Company during the course of the hearing.

NORMALIZED INCOME TAXES FOR THE TEST YEAR

Return on rate base	\$4,626,481
Allowance for borrowed funds used during construction	<u>37,721</u>
Total income before financial charges	\$4,664,202
Interest expense	<u>(1,627,500)</u>
Net income before adjustments	\$3,036,702
Add net non-deductible expenses	<u>27,500</u>
Normalized utility income after tax	<u>\$3,064,202</u>
Normalized income taxes (at 49.75%)	\$3,033,712

INCOME TAXES PAYABLE FOR THE TEST YEAR

Normalized utility income after tax	\$3,064,202
Normalized income taxes	<u>3,033,712</u>
Normalized utility income before tax	\$6,097,914
Adjustments:	
Amortization and depreciation	1,788,007
Capital Cost Allowance	(2,551,100)
Allowance for borrowed funds used during construction	<u>(37,721)</u>
Taxable income	<u>\$5,297,100</u>
Income taxes payable (at 49.75%)	\$2,635,307

AVERAGE DEFERRED INCOME TAXES FOR THE TEST YEAR

Normalized income taxes	\$3,033,712
Income taxes payable	<u>(2,635,307)</u>
Income taxes deferred	\$ 398,405
Deferred income tax balance at 31 December 1979	\$3,108,000
Deferred income tax balance at 31 December 1980	<u>\$3,506,405</u>
Average deferred income taxes for the test year	\$3,307,203

CHAPTER 7

RETURN ON RATE BASERATE OF RETURNCapital Structure

The Applicant submitted the following average capitalization for the test year ending December 31, 1980 reflecting the applied-for retroactive adjustments with respect to IDC and depreciation.

	<u>Amount</u> (<u>\$</u>)	<u>Ratio</u> (<u>%</u>)	<u>Cost Rate</u> (<u>%</u>)	<u>Cost Component</u> (<u>%</u>)
Long term debt	14,500,000	34.35	10.85	3.73
Deferred taxes	5,757,000	13.64	2.0	.27
Common equity	<u>21,959,500</u>	<u>52.01</u>	17.3	<u>9.00</u>
	<u>42,216,500</u>	<u>100.00</u>		<u>13.00</u>

Long Term Debt

The amount of long term debt included in the capital structure was the average of the amounts of \$15 million and \$14 million projected to be outstanding at the beginning and end of the test year. Under cross examination, a policy witness for the Applicant stated that the debt retirement scheme contemplated called for \$1 million to be retired at the end of the test year. This witness agreed that, since the \$15 million would be outstanding during the whole of the test year, the average outstanding over the test year would also be \$15 million. The

Board has accordingly adjusted the debt component of the capital structure.

The Applicant anticipated that a cost rate of 10.85 percent would apply to the \$15 million debt issue proposed for the test year. Based on the evidence adduced at the hearing the Board accepts the rate of 10.85 percent.

Deferred Taxes

The Company included deferred taxes in the capital structure shown in the application. It requested that these funds be allowed to earn a rate of return of two percent.

In supporting Trans-Northern's request that its deferred tax funds be allowed to earn a return, an expert witness argued that, while such funds are cost free, their existence creates a specific risk for the Company's shareholders whose return may ultimately be affected in a negative way if and when the deferred taxes become payable.

In addition to the two percent return on deferred taxes, this witness recommended a rate of return on common equity of 16.0 to 17.5 percent. He pointed out that these recommendations were the equivalent of recommending a zero percent return on deferred taxes and a 16.5 to 18.0 percent return on common equity. This level of equity return lies, for the most part, above the prospective level of returns on common equity of 16 - 17

percent cited for industrial companies of comparable risk by the Applicant's witness. No evidence was given that the shareholders of industrial companies are not equally exposed to any risk arising from deferred taxes and that this risk is not reflected in the rates of return required by them. The Board therefore denies the Applicant's request on the ground that it would imply a rate of return on common equity greater than that commensurate with the risks shown to be confronting the Company's shareholders.

The Board has excluded the deferred taxes both from the requested capital structure used to determine an overall rate of return and from the rate base to which that return shall apply. This approach yields the same dollar return to Trans-Northern as that which would result from the inclusion of deferred taxes in the capital structure at zero cost with no deduction from rate base.

Common Equity

In its submission, the Company applied for a rate of return on common equity of 17.3 percent, which was implicit in its request for a rate of return of 13 percent on rate base. Under cross examination, Trans-Northern's policy witnesses acknowledged that this approach to determining a rate of return on common equity was different from that employed by the Company's rate of return witness who did not determine his recommended equity rate of return as a function of any overall rate but let the overall rate be determined by reference to his

findings in respect of the individual costs of debt, deferred taxes and common equity capital. A policy witness then stated that the approach used by its rate of return witness was perfectly acceptable to the Company. Accordingly, the Board has followed the approach employed by the Company's witness.

The Company's expert witness based his recommendation of a 16.0 - 17.5 percent equity rate of return (exclusive of a return on deferred taxes) essentially upon an analysis of the business and financial risks facing Trans-Northern's owners together with the application of a comparable earnings test or analysis of the rates of return available on investment opportunities judged by him to be of comparable risk to that of Trans-Northern's shareholders.

Business risk as a collective term is used to encompass factors which may affect the return of and on the capital invested by a firm in its assets. Most salient of the business risks cited by the Company's rate of return witness was that, unlike other Canadian pipeline utilities, Trans-Northern does not have a complete monopoly on the transportation of product in its market area. Trans-Northern's market was described as consisting of short (Metro Toronto and Montreal airports) intermediate (Montreal - Ottawa) and long haul segments (Toronto - Ottawa) with competition being experienced on the short haul segment which accounts for approximately 40 percent of the prospective test year revenues.

Other elements of business risk addressed were that the end-product demand may be more elastic than for a gas pipeline; that the Company has no long-term transportation contracts (with the exception of the Nanticoke Extension); and that, in contrast to major pipeline utilities such as TransCanada PipeLines Limited ("TransCanada"), its rate structure does not provide for the recovery of fixed costs regardless of quantities nominated. Again by way of placing perspective on the operational risks faced by Trans-Northern vis-à-vis other Canadian pipelines, the Company's witness stated further that Trans-Northern's supply risk was less than that of major Canadian oil and gas pipelines by virtue of the fact that it can be supplied from either Montreal or Toronto area refineries while, in light of the degree of exposure to natural hazards, its physical risk was equal to that of the major pipelines.

The final aspect of business risk addressed by the Applicant's rate of return witness was that of regulatory risk which may be defined as the risk that regulatory or political action or inaction will negatively affect a firm's ability to recover its invested capital and realize a fair return thereon. The witness discussed what he considered to be three elements of regulatory risk, namely earnings attrition, disallowance of costs and loss of real capital values. In respect of earnings attrition the witness stated that the favourable effect resulting from the Board's use of a forward test year was somewhat undercut

by the Company's rate structure which does not provide for the assured recovery of fixed costs should nominated quantities be reduced. The disallowance of costs was not seen as a current risk of any magnitude by the witness. The phrase "loss of real capital values" essentially referred to the witness' belief that Trans-Northern's investors have experienced erosion of their capital through inflation and that they should be compensated for this by a direct upward adjustment to the allowed equity rate of return. The witness stated that he had incorporated a factor of one half of one percent in his equity return recommendation of 16.0 - 17.5 percent so as to compensate the Company's shareholders for the effects of past inflation.

Financial risk may be defined as the degree to which any variability in operating income will affect the return earned by the common equity investor. This risk is a function of the amounts of capital which have claims to earnings senior to that of common equity capital. It can thus be seen that the higher the proportion of common equity in the capital structure, or the higher the equity ratio, the lower is the financial risk confronting the common shareholder. In setting a rate of return on common equity, the Board considers the reasonableness of the equity ratio in relation to the business risks faced by a given firm. The witness argued that the business risks to which Trans-Northern is exposed are greater than those associated with traditional utilities while being somewhat less than those faced by the typical Canadian industrial having an equity ratio of 65

percent. The Board agrees with this position and considers the the applied-for equity ratio of 52 percent to lie within a reasonable range for the Company in its current circumstances.

The comparable earnings test is a tool used to establish a benchmark for appropriate rates of return on utility equity investments primarily by reference to the earnings of unregulated firms which are of reasonably comparable risk and which thus constitute alternative investment opportunities to the utility shareholder. In arriving at a comparable earnings benchmark, the witness drew upon the Toronto Stock Exchange 300, selecting six of the fourteen industries contained therein as at January 1979. Companies from the six industries were arranged in three groups based on their earnings coefficient of variation over ten, seven and five year periods ending in 1978. The witness then selected those companies whose earnings variability most closely corresponded to that of Trans-Northern and proceeded to examine their past returns on common equity capital, concluding that the most likely prospective level of returns to be experienced by them in the test period lay in the area of 16 - 17 percent.

In summary, the Applicant, through its rate of return witness, argued for a rate of return on common equity of 16.5 to 18.0 percent vis-à-vis the return of 16 - 17 percent predicted to be experienced on investment opportunities of comparable risk. The requested rate of return lay for the most part above the benchmark provided by the comparable earnings test due to the incorporation of return factors designed to compensate for the

risk of deferred taxes and inflation. It is the Board's view, and no evidence to the contrary was adduced, that both of these factors are reflected in the rates of return required by investors in the unregulated enterprises cited by the Applicant's witness in his comparable earnings test and that to incorporate them in the rate of return allowed to Trans-Northern's shareholders would constitute, in effect, a double count.

Having given careful consideration to all of the evidence presented, the Board concludes that a rate of return of 15.75 percent on the Applicant's common equity is fair and reasonable for the test year.

RATE OF RETURN ON RATE BASE

One intervenor argued that, because the capital structure projected by the Applicant for the test year was not yet in place, the Board should consider simply fixing a pre-tax rate of return on rate base as it did in the Trans Mountain decision of January 1978.

It has become normal Board practice to approve the tolls and tariffs of companies subject to its jurisdiction on a forward test year basis. A consequence of this approach is the reliance by the Board on estimates made by applicants of their costs, including the cost of capital, where these are not shown to be unreasonable. Having regard to this point and the distinct circumstances of the Trans Mountain case, the Board sees no particular advantage in employing a pre-tax rate of return approach in the circumstances of this case.

Based on the fair and reasonable costs of debt and common equity and the applied-for capital structure adjusted to reflect the actual average of long term debt outstanding for the test year, the exclusion of deferred taxes, the partial disallowance of the retroactive adjustment requested in respect of depreciation, and the disallowance of the retroactive adjustment in respect of IDC, the overall cost of capital for Trans-Northern is 13.54 percent as computed hereunder.

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Cost Component</u>
	(\$)	(%)	(%)	(%)
Long term debt	15,000,000	44.99	10.85	4.88
Common equity	<u>18,338,500*</u>	<u>55.01</u>	15.75	<u>8.66</u>
	<u>33,338,500</u>	<u>100.00</u>		<u>13.54</u>

* The \$18,338,500 is \$3.6 million less than the shareholders' equity included in the Application. This difference is due to the denial of \$3.1 million of the requested total of \$4.1 million increase in shareholders' equity associated with the retroactive adjustments, and the related return thereon.

RETURN ON RATE BASE AND ASSETS SPECIALLY CLASSIFIED

In accordance with the Board's determinations as to Trans-Northern's authorized rate base and rate of return thereon, the return to the Company is \$4,626,481 as computed hereunder.

Rate base before deducting deferred taxes	\$37,283,532
One-half of net average assets specially classified*	<u>192,660</u>
	\$37,476,192
Less deferred taxes	<u>(3,307,203)</u>
Total	<u>\$34,168,989</u>
Return (13.54% of \$34,168,989)	\$ 4,626,481

* Assets Specially Classified are discussed in Chapter 5. For presentational purposes a full return on one-half of the net asset value is shown. This is of course equivalent to one-half of the rate of return applied to the full net asset value.

CHAPTER 8

TOTAL COST OF SERVICE/REVENUE REQUIREMENT

A summary of the total cost of service, which for Trans-Northern is the same as the revenue requirement, is presented below.

	<u>Per Submission</u>	<u>Board Adjustments</u>	<u>Allowed by Board</u>
Operating Expenses	\$ 8,772,000	\$ (261,555)	\$ 8,510,445
Depreciation	1,714,000	(11,619)	1,702,381
Amortization	-	85,626	85,626
Return	5,537,000	(910,519)	4,626,481
Income Taxes	3,896,000	(862,288)	3,033,712
	<u>\$19,919,000</u>	<u>\$(1,960,355)</u>	<u>\$17,958,645</u>

After giving effect to the Board adjustments previously discussed, the Board approves a revenue requirement totalling \$17,958,645.

CHAPTER 9

TOLL DESIGN AND OTHER TARIFF MATTERSTHROUGHPUT

An estimate of the throughput is crucial to the determination of just and reasonable tolls. Throughput forms the basis of determining which assets the company will employ and thus will be eligible for inclusion in the rate base. In addition, a considerable portion of the cost of service of Trans-Northern consists of fixed costs and therefore a substantial part of the tolls, expressed in cents per cubic metre, consists of fixed costs divided by throughput. The toll is very sensitive to changes in throughput.

The Board recognizes that it is difficult to develop at this time a reliable throughput forecast for 1980. This is especially so at a time when the Company has recently faced major changes to its operation such as the addition of Nanticoke as a shipping point and the shift in the source of a considerable amount of the Ottawa supply of petroleum products from Montreal to Toronto area refineries. It is noted that the potential for a shift in the supply source for the Ottawa market is dependent upon the supply and price of offshore crude oil, the availability of domestic crude oil and government energy policy - factors beyond the control of Trans-Northern.

Based on the information available, the Board believes that the throughput forecast submitted by Trans-Northern for the year 1980 is reasonable and the Board adopts this forecast (Appendix III) for use in the design of tolls.

AIRPORT LATERALS

The Company proposed a toll design which included a separate "add-on" charge for each airport lateral. The Company computed the toll to each airport on the basis of the system charges for lifting and transmission to the lateral junction plus an "add-on" charge for transmission and terminalling on the airport lateral.

In the case of Dorval airport, the Company proposed a reduced toll on the basis that competitive considerations did not allow the Company to charge higher than 35 cents per barrel. Additionally, the Company proposed a 30 cent per barrel toll to Dorval for non-jet fuel which did not require jet fuel terminalling facilities.

The Company indicated that airport terminals differ from all other terminals in the amount of facilities and handling required to perform special service functions for shippers of jet fuel. These operations include filtration, storage, testing and metering. Under cross-examination, a Company witness admitted that certain storage facilities at Dorval were no longer required by shippers of jet fuel.

The Board is satisfied that airport terminals, but not the transmission lines to them, differ significantly from other system terminals due to costs related to these special service functions. Therefore, the Board approves the calculation of a separate "add-on" charge for each airport jet fuel terminal. Similarly, the Board notes that transmission is a function common to all throughputs, including jet fuel. In evidence, it was

stated that there is no significant cost difference in the transmission of jet fuel. Thus, the Board requires that the cost of transmission on airport laterals be "rolled-in" in the calculation of a system transmission charge to be based on distance. The effect of this adjustment to the "add-on" and transmission charges is incorporated in tables 1 and 2 on pages 9-5 and 9-6.

GENERAL TERMS AND CONDITIONS

Under cross-examination, the Company indicated its intention in 1980, to revise its "Conditions of Transportation" dated 1 January 1972. The Board instructs the Company to complete this revision at an early date and to file with the Board and serve upon interested persons such revision at least 30 days before the proposed effective date. Interested persons include all Trans-Northern's shippers, the Attorneys General of Ontario and Quebec and any person who notifies the Company and the Board that he is interested in the Company's tolls and tariffs and is accepted by the Board as such.

COST ALLOCATION

The Company proposed a cost allocation based upon a functionalization of rate base and cost of service into lifting, transmission and delivery, with a separate allocation of the rate base and cost of service associated with airport laterals.

Generally, the Board finds that the Company's method of cost allocation reasonably reflects the manner in which costs are

incurred. Certain adjustments to the transmission component are necessary to include costs of transmission on airport laterals. The following tables (pages 9-5 and 9-6) allocate the Board adjustments to rate base and cost of service on a proportionate basis to all functions and laterals. Additionally, the transmission cost component has been adjusted to include the transmission costs of airport laterals. An explanation of the Board allocation of these adjustments is given in Appendices IV and V.

DETERMINATION OF TOLLS

Based upon its cost functionalization, the Company's toll design derived unit charges for lifting, transmission, delivery and airport cost components. The Company allocated the cost of all these components except transmission on a volumetric basis to determine a unit charge. The unit charge for the transmission cost component was allocated on the basis of the total barrel-miles ($m^3 \cdot km$). Thus, each toll was the sum of the charges for lifting, transmission over the relevant distance, and delivery to either a system terminal or airport.

The Board is satisfied that this methodology is equitable to all users. On the basis of the Board-approved cost of service and the revised cost allocation the toll charge components have been calculated and are compared on page 9-7 with the Company's proposal.

Table 1

FUNCTIONALIZED RATE BASE							
Line	Lifting	Trans- mission	Delivery	Toronto Airport	Dorval Airport	Mirabel Airport	Notes
Net Plant in Service (including working capital):							
1.	\$2,398,985	\$33,948,527	\$662,068	\$1,307,087	\$1,279,022	\$2,997,632	(a)
2.		<u>387,009</u>					(b)
3.	2,398,985	34,335,536	662,068	1,307,087	1,279,022	2,997,632	
4.	(304,993)	(2,290,902)	(84,170)	(426,514)	(726,487)	(1,863,732)	(b)(c)
5.	<u>2,093,992</u>	<u>32,044,634</u>	<u>577,898</u>	<u>880,573</u>	<u>552,535</u>	<u>1,133,900</u>	
Assets Specially Classified:							
6.	-	301,449	-	-	83,871	-	(d)
7.	-	150,725	-	-	41,935	-	(e)
8.	<u>\$2,093,992</u>	<u>\$32,195,359</u>	<u>\$577,897</u>	<u>\$880,573</u>	<u>\$594,471</u>	<u>\$1,133,900</u>	(f)
Notes							
(a) Application - vol. V - Revised 1980 - p. 9							
(b) Text p. 5-1 - note *							
(c) Appendix IV - line 10							
(d) Text p. 5-3. Calculation of Dorval portion: \$115,922 (Text p. 5-4) (j)							
(1,078) Appendix IV note (j)							
(21,654) Appendix IV note (k) 1980							
93,190 Net book value 1 Jan. 1980							
(18,638) 20% amortization							
74,552 Net book value 31 Dec. 1980							
<u>\$ 83,871</u> Average net book value							
(e) 50% of line 6							
(f) Line 5 plus line 7							

FUNCTIONALIZED COST OF SERVICE

9 - 6

Line	Operating Expenses:	Lifting	Trans- Mission	Delivery	Toronto Airport	Dorval Airport	Mirabel Airport	Overhead	TOTAL	Notes
1.	Per Submission	\$ 451,767	\$ 4,087,598	\$ 788,530	\$ 144,584	\$ 161,092	\$ 108,044	\$ 3,030,385	\$ 8,772,000	(a)
2.	Board Adjustments	(13,470)	(12,328)	(23,512)	(26,495)	(60,161)	(35,232)	(90,357)	(261,555)	(b)
3.	Approved Amounts	438,297	4,075,270	765,018	118,089	100,931	72,812	2,940,028	8,510,445	(c)
4.	Overhead Allocation	735,007	1,470,014	624,737	58,902	15,396	35,972	(2,940,028)	-	
5.	Board Allocation	1,173,304	5,545,284	1,389,755	176,991	116,327	108,784	-	8,510,445	
6.	Depreciation:									
7.	Per Submission	143,611	1,300,443	77,092	46,975	52,927	93,344	-	1,714,392	(d)
8.	Company Rounding	-	(392)	-	-	-	-	-	(392)	(e)
9.	Revised Submission	143,611	1,300,051	77,092	46,975	52,927	92,344	-	1,714,000	
10.	Board Adjustments	(755)	83,247	(208)	(11,510)	(26,761)	(55,632)	-	(11,619)	(f)
10.	Board Allocation	142,856	1,383,298	76,884	35,465	26,166	37,712	-	1,702,381	
11.	Amortization:									
11.	Board Allocation	-	\$ 66,988	-	-	\$ 18,638	-	-	85,626	(g)
12.	Return:									
12.	Per Submission	311,861	4,413,204	86,066	169,917	166,269	389,683	-	5,537,000	(d)
13.	Board Allocation	258,506	3,974,556	71,342	108,708	73,388	139,981	-	4,626,481	(h)
14.	Income Tax:									
14.	Per Submission	219,435	3,105,263	60,558	119,559	116,992	274,193	-	3,896,000	(d)
15.	Board Allocation	169,509	2,606,226	46,781	71,283	48,123	91,790	-	3,053,712	(n)
16.	Total Cost of Service:									
16.	Per Submission	1,884,270	14,407,036	1,656,184	544,391	515,987	911,132	-	19,919,000	(i)
17.	Board Approved	1,744,175	13,576,352	1,584,762	392,447	282,642	378,267	-	17,958,645	(j)
18.	Unit Charges:									
18.	Allocation Units (per submission)									{d k}
19.	- Barrels	60,870,000		51,738,000	4,878,000	1,275,000	2,979,000	-		
19.	- 000 Barrel-miles		6,792,951					-		
20.	Charge (Cents per Barrel)	2.9		3.1	8.0	22.2	12.7	-		(l)
21.	Revenue	1,765,230		1,603,878	390,240	283,050	378,333	-		(m)
22.	Transmission Charge Adjustment		(38,438)					-		(n)
23.	Transmission Charge (Cents per Barrel-mile)		0.19929					-		(o)

(a) Application vol. V - Revised 1980 - p. 10
 (b) Appendix V - line 6
 (c) Allocation - 50% to transmission per Application vol. III - item 8 - p. 4
 remainder on basis of barrels (line 18)
 (d) Application - vol. V - Revised 1980 - p. 11
 (e) Application - vol. V - Revised 1980 - p. 4 and 11
 (f) Appendix V - line 14
 (g) Text p. 8-1 and Appendix IV p. 1 line 18
 (h) Text p. 8-1 - allocation basis Table 1, line 8
 (i) Total of lines 1, 8, 12 and 14. Text p. 8 - 1
 (j) Total of lines 5, 10, 11, 13 and 15. Text p. 8-1.
 (k) Application - vol. V - item 10
 (l) Line 17 divided by line 18
 (m) Line 18 times line 20
 (n) Rounding the lifting, delivery and airport charges to the nearest one-tenth cent results in revenue \$38,438 in excess of the Board approved cost of service for these functions. This amount is deducted from the transmission revenue requirement in order that total revenue generated by the approved tolls will more accurately match the total approved cost of service.
 (o) Line 17 plus line 22, divided by line 19

Charge Component (Cents)

	<u>Company Proposal</u>	<u>Board Revision*</u>
Lifting (per barrel)	3.0956	2.9
Transmission (per barrel-mile)	0.21411	0.19929
Delivery (per Barrel)	3.201	3.1
Jet Terminals (Per barrel)		
- Dorval	40.47**	22.2
- Mirabel	30.59**	12.7
- Toronto Airport	11.16**	8.0

* See Table 2 (Page 9-6)

** These proposals include transmission on the airport laterals only, and delivery at the airport terminals.

From these charge components, the Board has calculated revised tolls. These are shown on a comparative basis with the Company's existing and proposed tolls in Appendix VI.

EARNINGS SURVEILLANCE

Under cross-examination Company witnesses indicated the desirability of monitoring the Company's performance on a quarterly basis and providing a mechanism for tariff adjustments based on the principles established in this hearing without resort to a public hearing.

The Board has considered the Company's proposal as well as the concerns of other parties to the hearing. The Board will require Trans-Northern to file quarterly with the Board its forecast of calendar year throughput matching source and destination, beginning 1 January 1980. The Board will also

require Trans-Northern to file quarterly during the test year a forecast of its revenue, its allowable cost of service after adjusting for the changes in throughput, and its return on common equity.

Further, the Company is to file at least 45 days before the conclusion of the test year its forecast cost of service and throughputs for the following year detailing changes in costs from the test year and showing separately the effects of changes in throughput, and changes in prices, salary and wage rates, and in other factors, within the framework of the principles contained in these Reasons for Decision. This procedure may be continued for each calendar year following 1981 using the principles underlying these Reasons for Decision.

The Company shall file new tolls when it is apparent that the return on equity for the calendar year will vary by greater than two percentage points from the Board-approved rate. Any such tariff revision shall be supported by adequate information to demonstrate the derivation of tolls and be filed at least 30 days before the effective date with the Board and with interested persons as defined above.

CHAPTER 10

ACCOUNTING MATTERS

There was considerable discussion during the hearing over the Board's concern that, as of the 1977 and 1978 fiscal year-end dates, there were for certain items material differences between the Company's audited financial statements in the annual report to the shareholders and the annual Oil Pipeline Transport Annual Reports to the Board based on the Board's Oil Pipeline Uniform Accounting Regulations (filed in accordance with the Statistics Act, S.C. 1970-71-72, Chapter 15, as amended) without, in the Board's view, adequate disclosure of the basis for the differences. The Company included in its financial statements to shareholders the restated accumulated depreciation and interest during construction equivalent to the amounts requested in the hearing for inclusion in its rate base and for recording in its accounting records under N.E.B. accounting regulations. Confusion over these differences could arise in the mind of the public to whom both documents are available for scrutiny.

The Company agreed that there were advantages to maintaining a single set of records to serve the needs of accounting both for shareholders and for regulatory purposes.

The Board was assured that, following the decision in this case, Trans-Northern would carefully consider the treatment then to be accorded to the adjustments to its financial statements for shareholders which caused the differences between the two sets of accounts.

The Company further assured the Board that future differences would be explicitly explained, together with their implications, in the notes to the financial statements prepared for shareholders.

CHAPTER 11

DISPOSITION

Throughout the preceding chapters, the Board has recorded a number of decisions, following from which the Board requires that:

- (1) Trans-Northern's Tariff No. 11, presently in effect, be disallowed effective 31 December 1979;
- (2) The proposed tolls (in SI units) appearing in Board Order TO-1-79 (Appendix II) be prescribed as the tolls to be charged by Trans-Northern effective 1 January 1980;
- (3) Trans-Northern file with the Board a new tariff reflecting the new tolls specified in item (2);
- (4) If a new tariff be filed in accordance with item (3) prior to 1 January 1980, it be suspended and be of no effect until that date;
- (5) The provisions of Trans-Northern's tariff which are contrary to any Order of the Board, including the Order to be issued from these proceedings, be disallowed effective 31 December 1979;
- (6) The Company follow the procedures set out in the sections on "General Terms and Conditions" and "Earnings Surveillance" in Chapter 9 "Toll Design and Other Tariff Matters" of these Reasons for Decision,

which requirements are set forth in Order No. TO-1-79, shown in Appendix II hereto, this order having been predicated upon these Reasons for Decision.

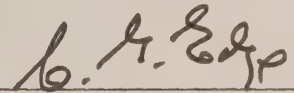
As a result of the findings in these Reasons for Decision, the Board requires, for accounting purposes, that:

- (1) Trans-Northern record in its books and accounts as of 1 January 1980 the entry required to give effect to the Board's decision concerning retroactive depreciation, namely,

Dr. Account 31, Accumulated depreciation,	
transportation plant	\$2,000,000
Cr. Account 71, Accumulated tax	
reductions applicable to future	
years	\$1,000,000
Cr. Account 92, Retained earnings	\$1,000,000

- (2) Trans-Northern conduct a study of the service value and estimated service life of plant as described in section 54 of the Oil Pipeline Uniform Accounting Regulations relating the undepreciated value of the assets comprising the pipeline to their remaining physical and economic life whichever is the shorter and file with the Board by 30 September 1980 a copy of such study, together with resulting depreciation rates.

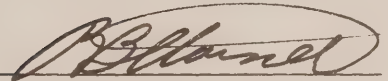
The foregoing chapters together with Board Order No. TO-1-79, shown as Appendix II hereto, set forth our Reasons for Decision and our decision in this matter.



C.G. Edge
Presiding Member



L.M. Thur
Member



R.B. Horner
Member

ORDER NO. RH-3-79

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;

AND IN THE MATTER OF an application by
Trans-Northern Pipe Line Company (hereinafter
called "the Applicant" or "the Company")
for certain orders respecting rates and
tolls pursuant to Part IV of the National
Energy Board Act, filed with the Board
under File No. 1762-T2-1

B E F O R E the Board on Thursday, the 12th day of July, 1979.

UPON reading the application filed on behalf of the
Applicant dated the 14th day of November 1977, as amended,
including the updated test year data filed 26 June 1979, under
Part IV of the National Energy Board Act, for orders fixing the
just and reasonable rates or tolls the Applicant may charge for
or in respect of the transportation of refined petroleum
products and for such further order or orders as will enable
the Company to file a tariff containing tolls which are just
and reasonable.

IT IS ORDERED THAT:

1. The application will be heard in the Hearing Room,
National Energy Board, Trebla Building, 473 Albert Street, in
the City of Ottawa, in the Province of Ontario, commencing on
Tuesday, the 21st day of August, 1979 at 9:30 a.m. local time.
Such proceedings will be conducted in either of the two
official languages, and simultaneous interpretation will be
provided should a party to the proceedings request such
facilities in his intervention.

2. The Applicant shall, forthwith serve a true copy of the said application, as amended, if not already served, and a true copy of this Order, upon all the Applicant's customers, the Attorneys General of the Provinces of Ontario and Quebec, The Canadian Petroleum Association, and The Independent Petroleum Association of Canada, and as soon as possible upon those persons who have intervened pursuant to paragraph 4 hereof.

3. Notice of the said hearing in the form prescribed by the Board as set forth in the Notice attached to and forming part of this Order shall be published on or before the 19th day of July, 1979, in one issue of each of "The Globe and Mail" and "The Financial Post" in the City of Toronto, "The Citizen" and "Le Droit" in the City of Ottawa, all in the province of Ontario; "The Gazette", "Le Devoir" and "Financial Times of Canada" in the City of Montreal, in the Province of Quebec; and as soon as possible in the Canada Gazette.

4. Any respondent or intervenor intending to oppose or intervene in the said application shall, on or before the 10th day of August, 1979 file with the Secretary of the Board thirty (30) copies of a written statement, in either of the two official languages, containing his reply or submission, together with any supporting information, particulars or

.../3

documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the application, and which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 10th day of August, 1979, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant, and one (1) copy each upon the Attorneys General of the Provinces of Ontario and Quebec, the Canadian Petroleum Association and The Independent Petroleum Association of Canada and shall file proof of service thereof with the Board at the opening of the hearing.

5. The Applicant shall prepare its direct evidence written in question and answer form with lines numbered (hereinafter called "written direct evidence") for each of its witnesses and shall,

- (a) on or before the 6th day of August, 1979, file twenty (20) copies thereof with the Board and
- (b) as soon as possible, serve one copy of the same upon any other party who has intervened pursuant to paragraph 4 of this Order.

... /4

6. Any party who has intervened pursuant to paragraph 4 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before the 15th day of August, 1979, file twenty (20) copies thereof with the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 4 hereof, a list of which intervenors will be available from the Board on the 13th day of August, 1979.

7. The Rules and Procedures set out in the Appendix to this Order shall govern the conduct of the Hearing.

8. Any interested party may examine a copy of the application and the submissions filed therewith at the office of:


National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A OE5.

or at the office of the Applicant at the following address:

Trans-Northern Pipe Line
Company,
Manulife Centre, Suite 1212,
55 Bloor Street West,
Toronto, Ontario
M4W 3H3

DATED at the City of Ottawa, in the Province of Ontario, this 12th day of July, 1979.

NATIONAL ENERGY BOARD



for Brian H. Whittle,
Secretary.

NOTICE OF HEARING

TAKE NOTICE THAT Trans-Northern Pipe Line Company (hereinafter called "The Applicant" or "The Company") has applied under Part IV of the National Energy Board Act, for orders fixing the just and reasonable rates or tolls the Applicant may charge for or in respect of the transportation of refined petroleum products and for such further order or orders as will enable the Company to file a tariff containing tolls which are just and reasonable.

IT IS ORDERED THAT:

1. The application will be heard in the Hearing Room, National Energy Board, Trebla Building, 473 Albert Street, in the City of Ottawa, in the Province of Ontario, commencing on Tuesday, the 21st day of August, 1979, at 9:30 a.m. local time.

Such proceedings will be conducted in either of the two official languages, and simultaneous interpretation will be provided should a party to the proceedings request such facilities in his intervention.

2. Any respondent or intervenor intending to oppose or intervene in the said application shall on or before the 10th day of August, 1979 file with the Secretary of the Board thirty (30) copies of a written statement, in either of the two official languages, containing his reply or submission, together with any supporting information, particulars or

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documents, which shall include a concise statement of the facts from which the nature of the respondent's or intervenor's interest in the proceedings may be determined, which may admit or deny any or all of the facts alleged in the application, and which shall be endorsed with the name and address of the respondent or intervenor or his solicitor to whom communications may be sent and which shall state the official language in which the respondent or intervenor wishes to be heard. Any respondent or intervenor shall, on or before the 10th day of August, 1979, serve three (3) copies of his reply or submission and supporting information, particulars or documents upon the Applicant, and one (1) copy each upon the Attorneys General of the Provinces of Ontario and Quebec, The Canadian Petroleum Association and The Independent Petroleum Association of Canada and shall file proof of service thereof with the Board at the opening of the Hearing.

3. Any party who has intervened pursuant to paragraph 2 hereof and who wishes to present direct evidence in the Hearing, shall prepare written direct evidence, and shall, on or before the 15th day of August, 1979, file twenty (20) copies thereof with the Board and serve one (1) copy of the same upon the Applicant and each other party who has intervened pursuant to paragraph 2 hereof, a list of which intervenors will be available from the Board on the 13th day of August, 1979.

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4. Any interested party may examine a copy of the application and the submissions filed therewith at the office of:

National Energy Board,
Trebla Building,
473 Albert Street,
Ottawa, Ontario
K1A 0E5

or at the office of the Applicant at the following address:

Trans-Northern Pipe Line Company,
Manulife Centre, Suite 1212,
55 Bloor Street West,
Toronto, Ontario
M5W 3H3

DATED at the City of Ottawa in the Province of Ontario, this 12th day of August 1979.

NATIONAL ENERGY BOARD

Brian H. Whittle
Secretary

RULES AND PROCEDURES

1. In these Rules, "party" means Trans-Northern Pipe Line Company, and any respondent or intervenor who has filed with the Secretary of the Board a written statement pursuant to paragraph 4 of Order No. RH-3-79.
2. At the public hearing of the Application by Trans-Northern Pipe Line Company, the evidence shall be heard in the following order:
 - (1) Rate base and Cost of Service excluding return:
 - (2) Rate of Return; and
 - (3) Rate Design and Other Tariff matters.
3. The Board shall hear all of the evidence on each of the three items referred to in paragraph 2 of these Rules, item by item, and for that purpose the Board shall first hear all of the evidence of the Applicant in respect of one item and then shall hear the evidence of each of the intervenors in respect of the same item.
4. Upon the completion of the evidence on all three items referred to in paragraph 2 of these Rules, the Board shall hear the oral argument of all parties.
5. At the hearing, each party shall file as exhibits two (2) copies of all material filed previously with the Secretary of the Board.
6. Any party who wishes to obtain additional information from the Applicant in respect of matters raised in the Application, may request in writing that such information be provided and the Applicant shall, as soon as possible, make a written response to that request. Wherever

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possible, in order to expedite the Hearing, these requests and responses should be made before the commencement of the Hearing.

7. Any party receiving an information request from the Board shall respond as soon as possible by filing with the Secretary of the Board five (5) copies of the response, and shall file the information request and its response together as an exhibit at the hearing.

8. Where a party files and serves written direct evidence pursuant to paragraph 6 of Order No. RH-3-79, any other party may request in writing that the party filing such written direct evidence provide additional information respecting the matters dealt with in the direct evidence and the party to whom such a written request is made shall, as soon as possible, make a written response to that request.

9. Both the written request and the response thereto, referred to in paragraphs 6 and 8 of these Rules, shall be filed as exhibits at the hearing.

10. If any question arises upon which a decision of the Board may be required, a notice of motion with respect thereto shall be filed with the Secretary of the Board, and the motion shall be heard by the Board at the Hearing on a date to be fixed by it.

11. The order of appearance of parties and sequence of adducing evidence and conducting cross-examination shall be announced by the Board on or before the opening of the hearing.

NATIONAL ENERGY BOARD



OFFICE NATIONAL DE L'ÉNERGIE

ORDER NO. TO-1-79

IN THE MATTER OF the National Energy Board
Act and the Regulations made thereunder;

AND IN THE MATTER OF an application by
Trans-Northern Pipe Line Company (hereinafter
called "the Applicant" or "the Company") for
certain orders respecting rates and tolls
pursuant to Part IV of the National Energy
Board Act, filed with the Board under File No.
1762-T2-1.

B E F O R E:

C.G. Edge,)	On Thursday, the 8th
Vice-Chairman)	
)	day of November, 1979.
L.M. Thur,)	
Associate Vice-Chairman)	
)	
R.B. Horner,)	
Member)	

UPON an application by the Applicant dated the 14th day
of November, 1977, as amended, including the updated test year data
filed on the 26th day of June, 1979, under Part IV of the National
Energy Board Act, for orders fixing the just and reasonable rates or
tolls the Applicant may charge for or in respect of the
transportation of refined petroleum products and for such further
order or orders as will enable the Company to file a tariff
containing tolls which are just and reasonable;

AND UPON the Board having heard the evidence and
submissions relating to the said application at a public hearing
which commenced on the 21st day of August, 1979;

IT IS ORDERED THAT:

1. The Company shall, effective the 1st day of January, 1980, charge for or in respect of the transportation of refined petroleum products, the rates and tolls prescribed in Schedule A hereto.

2. The terms and conditions under which refined petroleum products may be transported by the Company shall be those terms and conditions designated as the "Conditions of Transportation" dated 1 January 1972 filed as Exhibit 30 during the hearing.

3. The Company shall forthwith undertake and complete a revision of its Conditions of Transportation as described in paragraph 2 hereof, and shall file such revision with the Board and serve it upon interested persons at least 30 days before the proposed effective date of such revised Conditions of Transportation at which time the Conditions of Transportation referred to in paragraph 2 hereof shall be disallowed and the revised Conditions of Transportation shall become effective, unless otherwise ordered by the Board.

4. The Applicant shall forthwith file with the Board and serve upon all parties to the hearing of this application tariffs, tolls and rates conforming with this Order.

5. Notwithstanding the filing of the tariffs, tolls and rates referred to in paragraph 4 hereof, the same shall remain suspended and be of no effect until the 1st day of January, 1980.

. . . 3

- 3 -

6. Those provisions of the Applicant's tariff No. 11, tolls and rates, or any portion thereof, that are contrary to any order of the Board including this Order, be and the same are hereby disallowed, such disallowance to be effective on the 31st day of December, 1979.

7. The Company shall file with the Board quarterly its forecast of calendar year throughput matching source and destination, beginning 1 January 1980.

8. The Company shall file with the Board quarterly during the test year a forecast of its revenues, its allowable cost of service after adjusting for the changes in throughput, and its return on common equity.

9. The Company shall file with the Board at least 45 days before the conclusion of the test year its forecast cost of service and throughput for the following year detailing any change in costs from the test year costs as approved in the Board's Reasons for Decision showing separately the effects of the changes in throughput and changes in prices, salary and wage rates, and in other factors, within the framework of the principles contained in these Reasons for Decision.

10. The procedure set out in paragraph 9 hereof may be continued for each calendar year following 1981 using the principles underlying the Board's Reasons for Decision.

. . . 4

11. The Company shall file new tariffs, tolls and rates under the circumstances and following the procedure set out in the section on "Earnings Surveillance" in Chapter 9 "Toll Design and Other Tariff Matters" of the Board's Reasons for Decision.

12. In this Order:

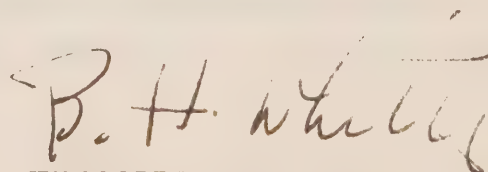
"interested persons" include

- (a) the Company's shippers;
- (b) the Attorneys General of Ontario and Quebec;
and
- (c) any person who notifies the Company and the Board that he wishes to be registered as an interested person in the Company's tolls and tariffs, and is accepted by the Board as such;

"test year" means the test period upon which the Company's tolls and tariffs as shown in Schedule A hereof are based, i.e. 1 January 1980 - 31 December 1980.

"Board's Reasons for Decision" means the National Energy Board Reasons for Decision in the Matter of an Application under Part IV of the National Energy Board Act of Trans-Northern Pipe Line Company, dated November 1979.

NATIONAL ENERGY BOARD



Brian H. Whittle,
Secretary

SCHEDULE A
Page 1 of 3

TRANS-NORTHERN PIPE LINE COMPANY
TOLLS EFFECTIVE 1 JANUARY 1980
IN DOLLARS PER CUBIC METER AT 15°C

<u>Source</u>	<u>Destination</u>	<u>Per m³ at 15°C</u>
Montreal	Dorval - jet	\$1.900
	- non-jet	0.698
	Mirabel	1.343
	Cornwall	1.313
	Prescott	1.901
	Maitland	1.999
	Ottawa	2.038
Nanticoke	Hamilton	0.851
	Port Credit	1.168
	Toronto Airport	1.650
	N. Toronto	1.420
	Toronto Harbour	1.645
	Markham	1.581
	Port Hope	2.213
	Belleville	2.823
	Kingston	3.358
	Maitland	4.040
	Prescott	4.183
	Ottawa	5.061

SCHEDULE A
Page 2 of 3

<u>Source</u>	<u>Destination</u>	Per m ³ at 15°C
Oakville	Port Credit	\$0.548
	Toronto Airport	1.028
	N. Toronto	0.800
	Toronto Harbour	1.025
	Markham	0.961
	Port Hope	1.593
	Belleville	2.203
	Kingston	2.737
	Maitland	3.420
	Prescott	3.563
	Ottawa	4.441
Clarkson	Port Credit	0.435
	Toronto Airport	0.916
	N. Toronto	0.687
	Toronto Harbour	0.912
	Markham	0.849
	Port Hope	1.480
	Belleville	2.090
	Kingston	2.625
	Maitland	3.307
	Prescott	3.450
Port Credit	Ottawa	4.328
	Toronto Airport	0.864
	N. Toronto	0.635
	Toronto Harbour	0.861

SCHEDULE A
Page 3 of 3

<u>Source</u>	<u>Destination</u>	<u>Per m³ at 15°C</u>
Port Credit	Markham	\$0.797
	Port Hope	1.428
	Belleville	2.038
	Kingston	2.573
	Maitland	3.255
	Prescott	3.398
N. Toronto	Ottawa	4.276
	Toronto Harbour	0.603
	Markham	0.539
	Port Hope	1.171
	Belleville	1.781
	Kingston	2.315
	Maitland	2.998
	Prescott	3.141
	Ottawa	4.019

TRANS-NORTHERN PIPE LINE COMPANY
1980 THROUGHPUT ESTIMATE

(000 barrels)

APPENDIX III

Page 1 of 2

SOURCE	MONTREAL	NANTICOKE	OAKVILLE	CLARKSON	TORONTO	TOTAL
Destination						
Dorval	1,275					1,275
Mirabel	2,979					2,979
Cornwall	763					763
Ottawa	8,917					
Total - Montreal System	13,934					
Hamilton		3,908				3,908
Port Credit		6,691	234			6,925
Toronto Airport		1,104	3,422	352		4,878
North Toronto		400	4,674	2,347		7,421
Toronto Harbour		5,420	2,975	Ø		8,395
Markham		152	49	104		305
Port Hope		959	39	1,638		2,636
Belleville		825	169	882		1,876
Kingston		711	459	838	96	2,104
Prescott		120				120
Maitland			34	69	65	168
Ottawa		1,734	1,661	1,617	3,188	8,200
Total - Toronto System		22,024	13,716	7,847	3,349	46,936
TOTAL SYSTEM						60,870

TRANS-NORTHERN PIPE LINE COMPANY
1980 THROUGHPUT ESTIMATE
(10³ m³)

SOURCE	MONTREAL	NANTICOKE	OAKVILLE	CLARKSON	TORONTO	TOTAL
Destination						
Dorval	202.6					202.6
Mirabel	473.4					473.4
Cornwall	121.2					121.2
Ottawa	1 417.0					
Total - Montreal System	2 214.2					
Hamilton		621.0				621.0
Port Credit		1 063.3	37.2			1 100.5
Toronto Airport		175.4	543.8	55.9		775.2
North Toronto		63.6	742.7	373.0		1 179.3
Toronto Harbour		861.3	472.8	-		1 334.1
Markham		24.2	7.8	16.5		48.5
Port Hope		152.4	6.2	260.3		418.9
Belleville		131.1	26.9	140.1		298.1
Kingston		113.0	72.9	133.2	15.3	334.3
Prescott		19.0				19.0
Maitland			5.4	11.0	10.3	26.7
Ottawa		275.5	263.9	257.0	506.6	1 303.0
Total - Toronto System		3 499.8	2 179.6	1 247.0	532.2	7 458.6
TOTAL SYSTEM						9 672.8

EXPLANATION OF BOARD ADJUSTMENTS TO RATE BASE

Appendix IV
Page 1 of 2

Line	Rate Base: including Working Capital	Lifting	Trans- mission	Delivery	Toronto Airport	Dorval Airport	Mirabel Airport	TOTAL	Notes
<u>NET PLANT IN SERVICE</u>									
1.	Allocation of error in I.D.C. on Finch Dam, etc.		\$ 10,946					\$ 10,946	(a)
2.	Allocation of disallowed I.D.C.	(\$ 22,873)	(327,510)	(\$ 6,312)	(\$ 12,462)	(\$ 12,195)	(\$ 28,581)	(409,933)	(b)
3.	Allocation of cost of assets specially classified		(226,030)			(114,844)		(340,874)	(c)
4.	Accumulated depreciation on Finch Dam, etc.		(303)					(303)	(a)
5.	Allocation of adjustment to accumulated depreciation and to remove depreciation on disallowed I.D.C.	(285,013)	(4,080,969)	(78,657)	(155,289)	(151,955)	(356,136)	(5,108,019)	(b)
6.	Allocation of net average accumulated depreciation on assets specially classified		72,540			22,984		95,524	(d)
7.	Allocation of working capital per Submission	(86,326)	(1,221,612)	(23,824)	(47,035)	(46,024)	(107,866)	(1,532,687)	(e)
8.	Allocation of Board approved working capital	89,219	1,271,133	24,623	48,611	43,479	111,483	1,588,548	(f)
9.	Transfer of net transmission plant on airport laterals to transmission function		2,210,903		(260,339)	(467,932)	(1,482,632)	-	(g)
10.	Total Board adjustments	(\$304,993)	(\$2,290,902)	(\$84,170)	(\$426,514)	(\$726,487)	(1,863,732)	(\$5,696,798)	(h)
<u>ASSETS SPECIALLY CLASSIFIED</u>									
11.	Original cost of assets transferred from plant in service		\$ 228,152			\$115,922		\$ 344,074	(i)
12.	Applicable portion of disallowed I.D.C.		(2,122)			(1,078)		(3,200)	(j)
13.	Accumulated depreciation to 1 January 1980 less depreciation adjustment on disallowed I.D.C.		(68,340)			(21,654)		(89,994)	(k)
14.	Net book value 1 January 1980		\$ 157,690			\$ 93,190		\$ 250,880	
15.	Net book value of Brighton Pump Station 1 January 1980		\$ 142,514					\$ 142,514	(l)
16.	Net book value of Finch Dam 1 January 1980		34,739					34,739	(1)
17.	Total net book value 1 Jan 1980		\$ 334,943			\$ 93,190		\$ 428,133	
18.	Less: Amortization @ 20% per annum		\$ 66,988			\$ 18,638		\$ 85,626	(m)
19.	Total net book value 31 Dec 1980		\$ 267,955			\$ 74,552		\$ 342,507	
20.	1980 average net book value		\$ 301,449			\$ 83,871		\$ 385,320	(n)
21.	Full return equivalent value (50% of 1980 average)		\$ 150,725			\$ 41,935		\$ 192,660	(n)

Notes

- (a) Text p.5-2
- (b) Text p.5-2 Allocation basis: Average net assets
 (Application vol. V - Revised 1980-p.9) plus
 Board allocation of company revision (Table 1,
 note (b) text p.9-5)
- (c) Text p.5-3
 and p.5-4 Allocation basis: Cost of assets for
 transportation and Dorval (p.5-3)
 respectively divided by total cost of
 Assets Specially Classified (p.5-4)
- (d) Text p.5-2
 and p.5-4 Allocation basis: Same as note (c) using
 accumulated depreciation
- (e) Application - vol V - Revised 1980-p.9 "Total rate base
 after allowance for working capital" minus
 "Average net assets", by function
- (f) Text p.5-1 Allocation basis: Table 1, line 3 plus
 adjustments in Appendix IV, lines 1 to 6
- (g) Exhibit 74 Allocation basis: Costs of the pipe line on
 the airport laterals not being available,
 a portion of the total cost of each lateral,
 as adjusted in lines 1 to 8 above, has been
 transferred to the transmission function in
 proportion to the cost of depreciation of
 the line pipe on each lateral as shown in
 Exhibit 74, viz: depreciation charge by
 lateral (Ex.74) divided by total deprecia-
 tion for all laterals (Ex.74) times adjusted
 total lateral rate base (Table 1, line 3
 plus adjustments lines 1 to 8 above)
- (h) To Table 1
- (i) Text p.5-4
- (j) Text p.5-3 note 1. Allocation basis: original cost per
 line 11.
- (k) Text p.5-3 note 2. Allocation basis: accumulated
 depreciation on plant not fully used
 (Text p.5-4)
- (l) Text p.5-3
- (m) Text p.5-5
- (n) To Table 1, lines 6 & 7; Text p.7-10

Line	Lifting	Trans- mission	Delivery	Toronto Airport	Dorval Airport	Mirabel Airport	Overhead	Total	Notes
OPERATING EXPENSES									
1.	\$451,767	\$4,087,598	\$788,530	\$144,584	\$161,092	\$108,044	\$3,030,385	\$8,772,000	(a)
2.									
3.		116,720		(23,584)	(59,092)	(34,044)			(b)
4.	(13,470)		(23,512)				(90,357)	(127,339)	(c)
5.				(2,911)	(1,069)	(1,188)		(5,168)	(d)
6.		(129,048)						(129,048)	(e)
7.	(13,470)	(12,328)	(23,512)	(26,495)	(60,161)	(35,232)	(90,357)	(261,555)	(f)
8.	438,297	4,075,270	765,018	118,089	100,931	72,812	2,940,028	8,510,445	(f)
DEPRECIATION									
9.	143,611	1,300,051	77,092	46,975	52,927	93,344		1,714,000	(g)
10.		11,189						11,189	(g)
11.		307						307	(g)
12.	(755)	(10,814)	(208)	(412)	(403)	(944)		(13,536)	(h)
13.		(7,274)			(2,305)			(9,579)	(i)
14.		89,839		(11,098)	(24,053)	(54,688)			(j)
15.	(755)	83,247	(208)	(11,510)	(26,761)	(55,632)		(11,619)	(k)
16.	142,856	1,383,298	76,884	35,465	26,166	37,712		1,702,381	(l)
<p>(a) Application - vol V - Revised 1980 - p.10</p> <p>(b) Application - vol V - Revised 1980 - p.10 and Exhibit 74. Costs of terminal portions of laterals, per exhibit 74, deducted from total costs of laterals and difference transferred to transmission function.</p> <p>(c) Total adjustment (\$261,555) allocated to lifting, delivery and overhead in proportion to total operating expenses (line 1).</p> <p>(d) Text p.6-2. Total reduction of salaries, wages and benefits (\$236,555) allocated to airports in proportion to their labour costs (exhibit 74) to total labour costs (application - vol V - item #3 - ninth page).</p> <p>(e) Transmission adjustment is the difference between total adjustments and the sum of lines 3 and 4. This method was necessary because of the difference in total operating expenses for the airport terminals as shown in the application and in exhibit 74.</p> <p>(f) To table 2. lines 2 and 3. Text p. 9-6.</p> <p>(g) Table 2. line 8. Text p.6-5.</p> <p>(h) Text p.6-5. Allocation basis: average net assets of plant in service per revised submission (Table 1, line 3).</p> <p>(i) Text p.6-5. Allocation basis: Accumulated depreciation per Text p.5-4.</p> <p>(j) Text p.6-5. Allocation basis: Depreciation expense for lateral per exhibit 74 divided by adjusted total depreciation per exhibit 74 times net depreciation on lateral per submission (application vol V - Revised 1980-p.11) plus adjustments in lines 11 and 12.</p>									

COMPARATIVE TOLLS

The tolls shown in cents per barrel are for comparative purposes.
The official tolls approved by the Board are in dollars per cubic meter.

<u>Source</u>	<u>Destination</u>	<u>Existing</u>	<u>Company Proposal</u>	<u>Board Approved</u>	
				<u>Per barrel at 60° F</u>	<u>Per m³ at 15° C</u>
Montreal	Dorval - jet	26.0¢	35.0¢* (46.9¢)	30.2¢	\$1.900
	- non-jet	-	30.0	11.1	0.698
	Mirabel	39.0	37.0	21.3	1.343
	Cornwall	21.0	22.3	20.9	1.313
	Prescott	31.0	32.3	30.2	1.901
	Maitland	31.0	34.0	31.8	1.999
	Ottawa	32.0	34.7	32.4	2.038
Nanticoke	Hamilton	17.0	14.4	13.5	0.851
	Port Credit	21.0	19.8	18.6	1.168
	Toronto Airport	32.0	30.2	26.2	1.650
	N. Toronto	25.0	24.1	22.6	1.420
	Toronto Harbour	28.0	27.9	26.1	1.645
	Markham	28.0	26.9	25.1	1.581
	Port Hope	37.0	37.6	35.2	2.213
	Belleville	47.0	48.1	44.9	2.823
	Kingston	55.0	57.2	53.4	3.358
	Maitland	66.0	68.8	64.2	4.040
	Prescott	66.0	71.3	66.5	4.183
	Ottawa	81.0	86.3	80.4	5.061

* Toll proposed is based on competitive factor whereas the bracketed toll is derived from costs.

<u>Source</u>	<u>Destination</u>	<u>Existing</u>	<u>Company Proposal</u>	<u>Board Approved³</u>	
				<u>Per barrel at 60° F</u>	<u>Per m³ at 15° C</u>
Oakville	Port Credit	-	9.2¢	8.7¢	\$0.548
	Toronto Airport	19.0¢	19.6	16.3	1.028
	N. Toronto	12.0	13.5	12.7	0.800
	Toronto Harbour	15.0	17.4	16.3	1.025
	Markham	15.0	16.3	15.3	0.961
	Port Hope	24.0	27.1	25.3	1.593
	Belleville	34.0	37.5	35.0	2.203
	Kingston	42.0	46.6	43.5	2.737
	Maitland	53.0	58.2	54.3	3.420
	Prescott	53.0	60.7	56.6	3.563
	Ottawa	68.0	75.7	70.6	4.441
Clarkson	Port Credit	-	7.3	6.9	0.435
	Toronto Airport	19.0	17.7	14.6	0.916
	N. Toronto	12.0	11.6	10.9	0.687
	Toronto Harbour	15.0	15.4	14.5	0.912
	Markham	15.0	14.3	13.5	0.849
	Port Hope	24.0	25.1	23.5	1.480
	Belleville	34.0	35.5	33.2	2.090
	Kingston	42.0	44.7	41.7	2.625
	Maitland	53.0	56.3	52.6	3.307
	Prescott	53.0	58.8	54.8	3.450
	Ottawa	68.0	73.7	68.8	4.328

<u>Source</u>	<u>Destination</u>	<u>Existing</u>	<u>Company Proposal</u>	<u>Board Approved</u>	
				<u>Per barrel at 60° F</u>	<u>Per m³ at 15° C</u>
Port Credit	Toronto Airport	19.0¢	16.8¢	13.7¢	\$0.864
	N. Toronto	12.0	10.7	10.1	0.635
	Toronto Harbour	15.0	14.6	13.7	0.861
	Markham	15.0	13.5	12.7	0.797
	Port Hope	24.0	24.2	22.7	1.428
	Belleville	34.0	34.7	32.4	2.038
	Kingston	42.0	43.8	40.9	2.573
	Maitland	53.0	55.4	51.7	3.255
	Prescott	53.0	57.9	54.0	3.398
	Ottawa	68.0	72.9	68.0	4.276
N. Toronto	Toronto Harbour	-	10.2	9.6	0.603
	Markham	11.0	9.1	8.6	0.539
	Port Hope	20.0	19.8	18.6	1.171
	Belleville	30.0	30.3	28.3	1.781
	Kingston	38.0	39.4	36.8	2.315
	Maitland	49.0	51.0	47.6	2.998
	Prescott	49.0	53.5	49.9	3.141
	Ottawa	64.0	68.5	63.9	4.019

